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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002716

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TAGS: [EFIN JO](#)

SUBJECT: JORDAN HIKES CONSUMER FUEL PRICES

REF: AMMAN 2569

Classified By: Ambassador Edward W. Gnehm. Reasons 1.5 (b) and (d)

11. (C) Summary. The GOJ raised prices of oil derivatives and by-products an average of four to eight per cent effective May 7, 2003. Finance Minister Marto and other senior officials confirmed publicly and privately that this was the first installment in a plan to raise consumer prices of petroleum products to world levels -- exactly as agreed with the United States last year. Initial public reaction to the decision has been muted. End Summary.

12. (u) The Cabinet decided on May 6 to raise consumer prices of virtually all oil derivatives and by-products effective May 7. Price increases include:

- Cooking gas cylinders up from \$3.53 to \$4.23
- Gallon of regular petrol from \$1.47 to \$1.60
- Gallon of first-grade petrol (super) from \$1.97 to \$2.13
- Gallon of unleaded petrol from \$2.27 to 2.40
- Gallon of kerosene and diesel from \$0.64 to \$0.69
- Metric Tons of fuel oil used in industries will rise from \$108.57 to \$115.62

13. (u) Finance Minister Michel Marto told the press that the government took the new measures "because all aid to the Kingdom from the United States, Japan, and the European Union is contingent on implementing our agreement with the International Monetary Fund (IMF) calling for the completion of reforms which started in Jordan in the past years." He added that when the government prepared the 2003 state budget it calculated the world market price for oil at \$26/barrel, but in the past four months Jordan had to pay as much as \$30 per barrel.

14. (u) Reiterating points made by Prime Minister Abu Ragheb to the press last week (ref), Marto said that this was the first of a series of price increases that would eliminate subsidies on oil products. He said, for instance, that a cylinder of gas costs at least \$4.94 to produce. With annual sales of 24 million cylinders of gas in the Kingdom, this means an annual loss of about \$35.25 million to the treasury. Marto was quoted in al-Rai, the leading Arabic daily, as saying, "The government will gradually increase prices of oil products so that in three years time there will be no more subsidies."

15. (c) In a May 7 meeting with ECON/C and a visiting U.S. Treasury team examining Iraqi accounts in Jordan, Marto elaborated that the Government's decision had been cleared by the King. He confirmed that it was the first step in the plan described to the United States in November 2002 to raise consumer prices of petroleum taxes to international levels (including an appropriate tax) over a three-year period. He said this initial increase would generate additional revenues of JD 4.5 million per month (\$55 million/year). Additional increases would follow the schedule given to the United States. Marto said that when he told the IMF mission chief about the price increases on May 6, the staffer praised the decision as further evidence of Jordan's ability to deliver on its commitments and meet its IMF targets.

16. (sbu) In addition to the oil products price increase, the cabinet authorized an increase from 2 to 4% in the General Sales Tax (GST) rate applied to food and other basic commodities. The cabinet also approved imposition of a 5% tax on interest income earned on bank accounts, which had previously been tax-exempt. Marto said this rate would be raised to the income tax rate over time.

17. (C) Comment: Synchronized with the price increases, the Public Transport Regulatory Commission raised fare schedules for public transportation vehicles using diesel and petrol fuel. This is the fifth such increase in consumer prices over the past three years. Marto predicted grumbling, but acceptance by the public, particularly in the context of the economic fallout on Jordan of the war in Iraq. So far, we have seen no negative blow-back from the decision on the streets or in the press, though there was a run on filling stations overnight that led to long waiting lines throughout the city.

18. (C) In post's considered opinion, the commitment Jordan made in November to raise oil product prices to

world levels is solid. In addition to the public statements of the government's intention, this is a policy of the King that will not change when governments or ministers change. Planning Minister Awadallah, an economic policy confidant of the King, also told ECON/C on May 5 that the King is completely on board with the policy of eliminating fiscal distortions, including Jordan's historical dependence on cheap oil, and will ensure that this policy is implemented.

GNEHM